JAPAN · ECONOMIC · INSTITUTE

JEI REPORT

NO. 25B
June 30, 1989

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Upper House Elections Set: The Race Is On . . .

The Uno administration and the ruling Liberal Democratic Party formally decided June 20 to make July 23 the day when Japan's 88.9 million registered voters may cast their ballots to decide representation in the House of Councillors, the upper house of the Diet. Top government and LDP officials also decided that the official campaign period will begin July 5, just 18 days before voting day -- although, like politicians the world over, there probably is never a time when Japanese Diet members from all parties are not campaigning for reelection.

The vote will be a critical test for the ruling party and, depending on the outcome, could precipitate groundbreaking changes in Japanese government leadership. Coming in the wake of the Recruit Co., Ltd. influence-peddling scandal, enactment of a controversial 3 percent consumption tax and implementation of certain agricultural reforms, the upper house contests have been likened to a type of plebiscite on the LDP's current governance of the country. At

JEI press time reports of Prime Minister Sosuke Uno's personal problems, mixed with the LDP's defeat in a June 25 by-election for the upper house, were raising questions in Japan about whether Mr. Uno would resign even before the elections. The prime minister has strongly denied rumors that he might step down. But public reaction to continuing allegations about his sexual liaisons with geishas reportedly is complicating his ability to shore up support for the LDP.

Of the 252 seats in the House of Councillors, 126 seats will be at stake. (Upper house members have staggered terms so that only half are up for election every three years.) The LDP, with 69 of its current 142 seats up for election (see Table), needs to win 54 seats to hold a simple majority of 127; it must win 59 seats in order to keep a stable majority of 132, which would enable the ruling party to retain the chairmanships of all 18 standing committees. In view of the shaky public support for Mr. Uno's new government -- 22 percent, according to a June 15 Mainichi Shimbun survey, the lowest level ever recorded for a new administration -- many political analysts expect the LDP may have a hard time securing even 54 seats. Should this happen, legislative activity on ruling party initiatives probably would grind to a halt, unless the LDP accommodated some opposition party demands in its proposals.

Diet Membership, June 1989

	Lower House	Upper House
Liberal Democratic Party	293	142
Japan Socialist Party	85	42
Komeito	56	23
Democratic Socialist Party	29	12
Japan Communist Party	27	17
Independents	8	5
Vacant	14	1
Tax Payers' Party*	0	4
Daini-In Club*	0	3
Salaried Workers' New Party	0	3
Total	512	252

*These minor parties differ from the opposition parties in that they generally have a single-issue focus and lack a significant external support organization.

Recognizing the uphill battle it faces, the ruling party included in its campaign platform a number of provisions designed to restore public confidence in the government. The policy package, approved June 16 by the LDP executive council, includes an explicit apology to the electorate for the involvement of a number of senior LDP members in the Recruit scandal. "As the ruling party, we apologize to the public for having generated serious distrust of national politics," the document stated.

The policy outline also emphasizes the importance of a sweeping reform of Japan's political system, including provisions that, by changing representation from a multi-seat to a single-seat district, effectively would end the ruling party's factional organization. On the controversial consumption tax,

the platform states that the party would "reexamine" the tax to eliminate some of its alleged faults, but there is no suggestion that the LDP would support discontinuation of the levy.

Prime Minister Uno followed up this prospectus June 19 with a statement reiterating his intent to enact political reforms before his term as LDP president runs out in October. Only after this is achieved will he consider dissolving the lower house for elections, the prime minister said in a June 19 interview with NHK (Japan Broadcasting Corp.) The opposition parties repeatedly have pressed for dissolution of both houses in order to take advantage of the LDP's popularity problems (see JEI Report No. 23B, June 16, 1989). They went one step further June 14 and submitted a bill to the parliament urging Mr. Uno to call a snap election. However, the LDP, which holds 293 seats in the 512-seat lower house, June 21 easily killed a motion to consider the legislation offered jointly by the Japan Socialist Party, Komeito and the Democratic Socialist Party. If the ruling party does not incur substantial losses in the upper house elections and if Mr. Uno is renamed party president and thus prime minister -- two highly problematic factors at this stage -- Mr. Uno has said that the soonest he may call a general election is the end of the year.

Barbara Wanner

Tokyo Tries To Keep Door Open To China

The execution of Chinese protesters June 21 by Beijing generated a second wave of condemnations from democratic governments. While the United States imposed additional restrictions on political and economic links with China, Tokyo again expressed deep regret but stopped short of instituting sanctions. Tokyo continues to feel that a number of historical and political factors constrain it from taking a more vocal stand. While seeing its position as being "substantively" in line with the China policies of the United States and other Western nations, Japan hopes a moderate response will prevent excessive international isolation of China. The restrained reaction of Japanese policymakers and businessmen to the China situation, however, has run into foreign and domestic criticism.

Tokyo's initial reaction to Beijing's forced ending June 6 of the pro-democracy student demonstrations was to express deep regret at the violence but to steer clear of condemning the political repression (see JEI Report No. 23B, June 16, 1989). Tokyo is laboring under the assumption that harsh criticism of the crackdown would ignite China's memories of Japanese war actions that, in turn, would be used by Beijing to divert attention from its own actions. China is viewed by Tokyo as a counterweight to Soviet influence in Asia and an important factor in solving regional disputes, such as the situation in Cambodia. From geopolitical and economic standpoints, therefore, Tokyo feels that ties to China are too important in the long run to risk.

Japanese businessmen brought criticism down on themselves by beginning to return to China less than 10 days after the crackdown started. Foreign Minister Hiroshi Mitsuzuka first indirectly chided businessmen, claiming that their rush to return to China could be seen as an attempt to fill the vacuum left when other foreign businesses halted operations or as an attempt to gain windfall profits from the situation. Businessmen were like "thieves at a fire,"

he charged in an address before the Diet. A Foreign Ministry spokesman lamented the apparent lack of corporate ethical sensitivity. Companies responded by claiming that they were sending back only enough personnel to safeguard and maintain offices and residential quarters. Nevertheless, several major Japanese firms admit to keeping their offices open during the crackdown and plan to move ahead with several factory openings in the near future.

In the aftermath of the executions that began June 21, Tokyo has hinted at the possibility that it will consider sanctions. Foreign Ministry spokesman Taizo Watanabe told foreign reporters that restoration of stability and effective operation of the Chinese government were not enough to assure the resumption of foreign aid, which Tokyo had put a hold on earlier in the month. "We still have to make up our minds as to whether or not it would be proper for us to go ahead" with aid programs, Mr. Watanabe asserted. Washington announced June 20 that it would block any efforts by China to obtain new aid from multilateral organizations, such as the World Bank. Japan may not publicly take such a stance, but Foreign Ministry officials predict that aid will remain "virtually frozen" until Beijing meets four requirements: the installation of an effective government; the restoration of stability through the lifting of martial law and other restrictive measures; a renewed commitment to economic reform and open-door policies by Beijing; and an improvement in China's external relations, particularly with the United States.

Opinion within the Diet is remarkably diverse on the China question. A poll conducted by a Japanese newspaper revealed that the differences cut across party lines. Takujiro Hamada, a Liberal Democratic Party member of the lower house Foreign Affairs Committee, was in favor of banning high-level government contact with China, a step already taken by the United States and other countries. Members of the opposition Japan Socialist Party and Democratic Socialist Party were more widely split, some calling for an end to economic aid to China while others were against any sort of sanction. According to the poll, the differences were based on perceptions of whether other countries would escalate their response and whether Japan would be criticized for taking a more moderate stance.

More fundamentally, Beijing's regression to hard-line domestic politics has rocked Tokyo's Asia policy to its foundations. Japan's massive economic aid was predicated on the idea that it would encourage not only Chinese economic development but political development as well. China's image as a foundation for Asian stability was shattered and the Foreign Ministry caught unawares, according to Japanese newspaper editorials. In a June 26 meeting with Secretary of State James Baker and in an address before the Asia Society in New York, Foreign Minister Mitsuzuka expressed support for the Bush administration's "balanced" approach to the China situation. He sought to maintain Japan's middle road by claiming that China "is in a process towards settlement of the domestic situation" and that Tokyo will continue to urge restraint by Beijing. Whether such urging will have any effect is uncertain.

Jon Choy

Japan's Economy On Auto Pilot

The Japanese public may not have had much time to concentrate on the economy of late. The consumption tax initiated in April and political scandals

tied to the Recruit Co., Ltd. influence-peddling scheme have captured headlines. Opinion polls show that the government's support among the population continues at low levels. Ruling party politicians might prefer that the economy got more attention.

The gross national product continues to dazzle, growing at an inflation-adjusted 9.1 percent annual rate in the January-March 1989 quarter (see Table). At least one of the ruling party's problems seemed to play an ironically positive role in the latest figures. The knowledge that taxes would be rising on a broad variety of goods and services April 1 prompted anticipatory buying in March, lifting some GNP components as well. The most affected category, personal consumer spending, leaped 7.8 percent on an annual basis in the quarter, offsetting the possibly negative influence in January and February of the Showa emperor's ieath and funeral.

As it has been in nearly every quarter recently, the most important contributor to overall growth in the January-March period was private plant and equipment spending, which reached 22.9 percent of total real GNP, one of the highest quarterly figures in recent memory. Capital spending contributed 1.5 percentage points to the quarter's overall growth of 2.2 percent or 68.2 percent of the total net increase.

By comparison, virtually every other category of GNP grew sluggishly or contracted. Residential construction, for example, which had shown some signs of resuming growth after reaching a plateau early last year, slipped, leaving it a mere 0.2 percent ahead of the same quarter a year ago. The various categories of government spending made a modest 0.4 percentage point contribution to overall growth. Most of the increase, however, was the result of the volatile government inventories category.

The foreign sector, which had made positive contributions in the July-September and October-December quarters, shaved 0.2 percentage point off the overall growth rate in the latest period. On a price-adjusted basis, exports surged in the quarter, but imports grew even faster. The resultant negative effect on GNP had been foreshadowed by the decline in Japan's current account during 1989's first three months (see JEI Report No. 19B, May 12, 1989).

The January-March quarter closed out Japan's 1988 fiscal year. Based on the predictions made last winter, private forecasters were right on the money, on average, in expecting a 5.1 percent real rate of growth for FY 1988. The government, which in January had projected the economy's expansion at 4.9 percent, was too pessimistic. Tokyo overestimated the growth of consumer spending while sharing nearly everyone's lack of confidence in the continuing spectacular performance of plant and equipment spending. The FY 1988 CNP result just missed matching the 5.2 percent increase registered in FY 1987.

For FY 1989 the government is expecting 4 percent real growth, while private forecasters are betting on 4.3 percent (see JEI Report No. 9A, March 3, 1989). Some of the latter recently have raised the earlier estimates on which that average is based. In May Dai-Ichi Kangyo Bank, Ltd., the world's largest commercial bank, hiked its forecast from 4.3 percent to 4.5 percent. The Industrial Bank of Japan, Ltd. revised its 4.4 percent figure up to 5 percent. Both banks see a repeat of this past fiscal year's pattern in which surging plant and equipment spending led the way, followed by strong private consumer

Japan's Real Gross National Product at Constant (1980) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1987	FY 1988	April-June 1988	July-September 1988	October-December 1988	January-March 1989
Gross National Product	Y317,589.4	Y333,831.9	Y324,982.8	Y332,443.8	Y335,266.6	Y342,639.1
	(5.2%)	(5.1%)	(-3.3%)	(9.5%)	(3.4%)	(9.1%)
Personal Consumption Spending	176,575.8	184,810.2	182,010.8	184,590.0	184,620.7	188,065.8
	(4.5%)	(4.7%)	(2.6%)	(5.8%)	(0.1%)	(7.7%)
Private Residential Construction	19,631.1	20,998.6	19,682.3	20,854.4	22,028.0	21,601.3
	(25.6%)	(7.0%)	(-30.3%)	(26.0%)	(24.5%)	(-7.5%)
Private Fixed Nonresidential Investment	61,812.5	72,864.1	68,143.0	71,021.6	73,420.6	78,284.7
	(10.0%)	(17.9%)	(19.8%)	(18.0%)	(14.2%)	(29.3%)
Change in Business Inventories	1,274.0	1,425.3	2,043.0	2,093.0	1,496.3	92.0
	(*)	(*)	(*)	(*)	(*)	(*)
Government Current Expenditures	28,637.2	29,254.2	28,990.9	29,184.4	29,376.7	29,463.0
	(-0.9%)	(2.2%)	(2.2%)	(2.7%)	(2.7%)	(1.2%)
Government Fixed Investment	24,466.8	24,981.6	25,189.5	24,734.6	24,910.7	25,144.8
	(10.0%)	(2.1%)	(-9.3%)	(-7.0%)	(2.9%)	(3.8%)
Change in Government Inventories	45.3	-194.6	119.5	-225.9	-916.2	253.3
	(*)	(*)	(*)	(*)	(*)	(*)
Net External Sector	5,146.7	-307.5	-1,196.2	191.7	329.8	-265.8
	(-36.0%)	(-106.0%)	(-99.0%)	(*)	(875.2%)	(*)
Exports of Goods and Services and Factor Income Received	55,415.8	60,890.4	55,377.6	60,994.6	61,381.8	66,038.7
	(5.2%)	(9.9%)	(-14.4%)	(47.2%	(2.6%)	(34.0%)
Imports of Goods and Services and Factor Income Paid	50,269.1	61,197.9	56,573.8	60,802.9	61,052.0	66,304.5
	(12.6%)	(21.7%)	(22.0%)	(33.4%)	(1.6%)	(39.1%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

spending. The banks also expect that both the real and the nominal current account balance will show further declines in FY 1989.

Of course, the banks cannot guarantee that their new forecasts will be more accurate than the old ones. Some econometric studies suggest that updated forecasts often are no better than the ones they replace. But ruling party politicians are, no doubt, thankful for the relative cheerfulness of the practitioners of the dismal science. And the same party's candidates, facing an upper house election this summer, can be grateful for the politicians' apparent irrelevance to the economy's performance. The economy has continued on a strong, upward course for more than two years with little policy intervention. Japan's economy -- like its more automated factories -- seems to require little human attention to achieve peak levels of performance.

Douglas Ostrom

Japan Remains World's Number-Two Aid Donor

Official development assistance figures reported by Tokyo to the Organization for Economic Cooperation and Development show that Japan remained the number-two donor in dollar terms for 1988 behind the United States, despite a big increase in Japan's foreign aid. In yen terms Tokyo's aid disbursements increased 8.6 percent from 1987's level to nearly Y1.2 trillion ($9.1 billion at Y128.15=$1.00, the average exchange rate for 1988). This worked out to a gain of 8.1 percent in real terms and 22.5 percent in dollar terms, according to OECD data released June 22. Japan's ratio of foreign aid to gross national product last year edged up to 0.32 from 1987's figure of 0.31.

The United States remained the single largest donor in dollar terms in 1988. Washington disbursed $9.8 billion, which represents an increase in real terms of 5.7 percent. The unusually high rate of increase for the United States, the OECD said, was due largely to the timing of donations to multilateral organizations, primarily two large payments to the Inter-American Development Bank. Despite the large quantity of aid, the United States gave only 0.20 percent of its GNP, which earned America the lowest rank of the 18 countries that are members of the OECD's Development Assistance Committee.

Last year marked the start of a five-year, $50 billion plan under which Tokyo is committed to doubling in dollar terms the total for the previous five years. Then Prime Minister Noboru Takeshita announced the latest plan at the economic summit meeting in Montreal last year. Tokyo hopes to raise its ODA/GNP ratio to equal the DAC average by the end of 1992. While the average for Japan edged up slightly in 1988, the overall DAC average also increased fractionally to 0.35 percent from a 1987 low point of 0.34 percent. Japan's aid per GNP ranks 12th among the 18 DAC countries, tied with Switzerland and the United Kingdom. America's 1988 level of 0.20 percent tied it with Ireland for last place. The Scandanavian countries and the Netherlands continued their dominant positions in terms of aid disbursements as a percentage of GNP. Norway again topped the list as the only country to donate more than 1 percent of its GNP in foreign aid, giving 1.12 percent in 1988.

Japan's bilateral grants in yen terms rose 16 percent in 1988, according to Ministry of Foreign Affairs data, up a real 15.5 percent as determined by

Net Flow of Financial Resources from Japan to Developing Countries and Multilateral Agencies, 1984-88

(in millions of dollars)

Type of Transaction	1984	1985	1986	1987	1988	Percent Change 1987-88
Official Development Assistance	$4,319	$3,797	$5,634	$7,454	$9,134	22.5%
Change Over Previous Year	14.8%	-12.1%	48.4%	32.3%	22.5%	
ODA/GNP Ratio	0.34%	0.29%	0.29%	0.31%	0.32%	
Bilateral Assistance	2,427	2,557	3,846	5,248	6,422	22.4%
Grants	1,064	1,185	1,703	2,221	2,908	30.9%
Grant Assistance	543	636	855	1,154	1,483	28.5%
Technical Assistance	521	549	849	1,067	1,425	33.6%
Development Lending and Capital	1,363	1,372	2,143	3,027	3,514	16.1%
Grants, Capital Subscription and Loans to Multilateral Agencies	1,891	1,240	1,788	2,207	2,712	22.9%

Notes: 1. Net disbursement basis.
2. Due to rounding, the figures do not necessarily add up to the totals.

Source: Ministry of Foreign Affairs

OECD definitions, which vary slightly from the standards of the Japanese government. This aid is comprised of financial assistance, which rose 13.9 percent to Y190.1 billion ($1.5 billion), and technical assistance, which hit Y182.6 billion ($1.4 billion), up 18.3 percent, according to MFA. Bilateral lending increased modestly to Y450.3 billion ($3.5 billion), a gain of 2.9 percent by MFA standards and 2.4 percent using the OECD definition. Tokyo's contributions to multilateral organizations topped Y347.5 billion ($2.7 billion), climbing 8.9 percent from 1987 (8.4 percent by the OECD standards). For dollar-denominated comparisons, see the table.

Judging by the real increase in 1988 ODA of more than 8 percent, Japan appears well on its way to reaching its goal of contributing $50 billion during the 1988-92 period and raising its ODA/GNP ratio to the DAC average. The FY 1989 budget has designated a 7.8 percent increase in foreign aid within the general account budget. The budgeted figures are expected to make Tokyo the world's leading aid donor in dollar terms this year. In addition, aid experts are watching to see if Japan will develop a foreign aid policy distinct from that of the United States. As pressure from Washington increases over the issue of burdensharing, foreign aid may offer a testing ground for Japanese policymaking in the world arena. Prime Minister Sousuke Uno, a former foreign minister, may have the skills to formulate such a protocol and to spearhead policy coordination among the many Japanese agencies that deal with foreign aid. However, he first must come to grips with the domestic political upheavals that landed him in office.

Gretchen Green

Japan Ups Ante In Mexico

Mexico is considered one of the "good boys" by international bankers and government officials in industrial countries. In the past few years, Mexico City has substantially restructured the economy and maintained a good record with its international creditors. But the debt has proven to be a persistent difficulty. Mexico's debt problems in the early 1980s were among the factors leading to the Baker Plan of 1985, named after then Secretary of Treasury James Baker. Now Mexico has become an early test of the Brady Plan, named after Nicholas Brady, Mr. Baker's successor at Treasury.

The United States tends to think of Mexico as special among developing countries because of their shared border. American firms also have disproportionate levels of investment in Mexico and trade with that country. But Japan, too, is involved substantially in Mexico, as has become increasingly evident in the ongoing negotiations over Mexico's debt.

Under the Baker Plan, multinational banks were supposed to come forward with additional lending to help countries such as Mexico overcome their debt repayment difficulties. The predictable problem soon became apparent: the major international banks thought this was a great idea -- for someone else. Each bank understood that its own loans would be more secure if supplemented with additional funds. With loans selling on the secondary market for a fraction of their face value, few banks were willing to take the plunge aimed at making all banks better off.

Economists refer to this difficulty as the "free-rider problem" for obvious reasons. Originally the term referred to workers eager to accept the

high wages that resulted from a union contract but unwilling to bear the pain of strikes, union dues and problems with the employer that union membership entailed. Yesterday's blue-collar workers have a modern counterpart in multinational banks.

The Brady Plan was supposed to deal with the free-rider problem involving banks. Debt relief of one kind or another was to be substituted for some of the new lending. Now banks could not be free riders simply by refusing to make new loans. Instead, as foreign borrowers negotiated deals that reduced interest payments or loan principal amounts, all those involved would share the pain.

Unfortunately the plan does not seem to be working out that way. Banks have discovered a new way to hitch a ride: let other banks grant debt relief. As they do, the secondary value of the remaining debt will rise -- to the advantage of all banks. Of course, if all banks think this way, no debt relief will be forthcoming. Yoh Kurosawa, deputy president of the Industrial Bank of Japan, Ltd., has hinted that U.S. banks are culprits in this regard. He suggested that Japanese banks, by contrast, presumably including his own, are following the script of the Brady Plan.

In labor relations, coercion sometimes solved the free-rider problem. Free riders were threatened or made subject to laws limiting their options. Under Secretary of the Treasury for International Affairs David C. Mulford has suggested that banks may face the same fate. In late May he warned banks that, if they did not go along, they could face legislation compelling them to cooperate. So much for voluntary debt relief, which appeared to be a key feature of the Brady Plan when it was unveiled in March.

Money could be another solution. If credit enhancements were to be substantial, banks might be more willing to replace old debt with new debt of lower face value or carrying a reduced interest rate. This obviously is where Japan enters. In the early days of the Brady Plan, Japan promised to kick in $4.5 billion to be used in conjunction with funds from the International Monetary Fund and the World Bank. Other countries have not announced similar commitments. In May Tokyo pledged another $1 billion in cofinancing loans to Mexico in conjunction with IMF and the World Bank.

Will this be enough? Virtually everyone agrees it will not. Mexico alone has bank debt reaching about $69 billion, of which an estimated $10 billion is owed to Japanese banks. The face value of the debt the 17 most heavily indebted countries owe to banks comes to about $376 billion. Of course, the guarantees would not have to cover all debt. A more reasonable criterion might be to guarantee the current secondary market value of the total debt, about $132 billion in the 17 countries, according to calculations by Professor Rudiger Dornbusch of the Massachusetts Institute of Technology. Clearly, the Japanese contribution to date, while generous compared to other countries, is little more than a drop in the multinational ocean.

One key aspect of the negotiations with Mexico is whether, as one of the good boys, it ends up being given a more-than-proportionate share of the candy. And Mexico is only the beginning. The Philippines, Venezuela and Costa Rica are other good boys waiting in the wings, hoping to receive early, and favorable, treatment. Beyond that are the bad boys, the countries with poor recent debt-handling records. How to grant them debt relief when they already have

given themselves plenty is a difficult problem. Finally, if multilateral organizations and banks develop a reputation as pushovers, some countries not normally on either good-boy or bad-boy lists may want some of the action. For example, India could make the argument that if debt relief should become a tool of economic development then New Delhi is as deserving as any, and a way should be found for it to participate.

All the parties hope for an accord with Mexico soon or, at the latest, by the mid-July summit meeting of the leaders of the world's industrial democracies. While an agreement may well be possible by then, few expect such an accord would end the debt problems with Mexico, let alone those of the other heavily indebted countries. With the considerable involvement of both its government and its banks, Japan is likely to play an increasingly important role as these negotiations go forward.

Douglas Ostrom

Foreign Firms Increase Japan Presence

Foreign direct investment in Japan rose very strongly in the year ending March 31, 1989, underscoring increased overseas interest in penetrating Japan's market, Ministry of Finance data show. A vibrant Japanese economy and relatively stable exchange rates undoubtedly weighted decisions toward direct investment in Japan. For all of FY 1988 total foreign direct investment in Japan jumped 46.5 percent in value to $3.2 billion, while the number of investments rose 8.2 percent to 4,268 (see Table 1). From a cumulative standpoint the gain was equally dramatic: the value of all foreign direct investment in Japan rose 34 percent from its March 31, 1988 level to $12.8 billion and the number of cases grew 15.7 percent to 31,508.

By country, American investment rebounded from its depressed FY 1987 performance, increasing in value by almost 90 percent and providing over half of all new foreign direct investment in Japan in FY 1988. In contrast to the gains showed by most of Japan's major trading partners, the catch-all "other" category showed a very sharp decline in value terms, although the number of transactions rose.

By industry, the sharp shift in favor of manufacturing ventures was striking (see Table 2). The value of investments in production facilities jumped almost 70 percent in FY 1988, pushing the cumulative total up a whopping 33.7 percent. The machinery sector increased its hold on first place, accounting for more than half of all investment dollars in the April 1988-March 1989 period. The chemicals industry also showed great gains, however, with FY 1988's value more than double the previous year's. Nonmanufacturing investment showed a spotty pattern, with some industries netting large gains while others posted declines.

As for the preferred financing vehicle in FY 1988, foreign purchases of convertible or warrant bonds (classified as cash loans in Table 3) were not as popular as the previous year. Very large bond offerings by Japanese banks as they sought to meet tougher capital requirements may have depressed the market, decreasing this option's attractiveness. Nevertheless, such fund-raising still financed almost a quarter of the value of all investment in FY 1988.

Table 1: Foreign Direct Investment in Japan by Country, FY 1987-FY 1988

(in millions of dollars)

	FY 1987			FY 1988			Cumulative March 31, 1989		
	Cases	Value	Share	Cases	Value	Share	Cases	Value	Share
United States	684	$938	42.4%	670	$1,774	54.7%	6,954	$6,268	49.0%
Canada	118	4	0.2	98	22	0.7	589	152	1.2
United Kingdom	368	49	2.2	447	112	3.5	2,731	518	4.0
West Germany	237	53	2.4	239	195	6.0	1,663	546	4.3
France	180	20	0.9	223	27	0.8	1,605	202	1.6
Switzerland	311	169	7.6	303	273	8.4	1,875	928	7.3
Netherlands	269	78	3.5	351	157	4.8	1,398	482	3.8
Other Europe	199	79	3.6	181	52	1.6	1,585	337	2.6
Hong Kong	370	36	1.6	386	44	1.4	3,566	390	3.0
Japan*	371	226	10.2	411	306	9.4	3,058	1,653	12.9
Other	839	563	25.4	959	280	8.6	6,484	1,318	10.3
Total	3,946	2,214	100.0	4,268	3,243	100.0	31,508	12,794	100.0

*Investments by Japanese firms with significant foreign participation.

Source: Ministry of Finance

Table 2: Foreign Direct Investment in Japan by Industry, FY 1987-FY 1988

(in millions of dollars)

	FY 1987			FY 1988			Cumulative March 31, 1989		
	Cases	Value	Share	Cases	Value	Share	Cases	Value	Share
Manufacturing	1,505	$1,430	64.6%	1,715	$2,425	74.8%	14,688	$9,030	70.6%
Food	140	7	0.3	122	86	2.7	1,004	266	2.1
Textiles	3	0	0	16	1	0.0	158	51	0.4
Rubber and Leather	1	1	0	1	0	0.0	86	47	0.4
Chemicals	162	244	11.0	181	500	15.4	2,023	2,519	19.7
Petroleum	34	34	1.5	37	27	0.8	441	684	5.3
Nonmetallic Mineral Products	71	3	0.1	9	11	0.3	367	135	1.1
Metals	86	14	0.6	11	29	0.9	680	457	3.6
Machinery	803	1,110	50.1	1,103	1,732	53.4	8,295	4,562	35.7
Other	205	17	0.8	235	39	1.2	1,634	309	2.4
Nonmanufacturing	2,441	782	35.3	2,553	818	25.2	16,820	3,764	29.4
Construction	194	2	0.1	134	8	0.2	751	73	0.6
Real Estate	93	20	0.9	72	70	2.2	253	147	1.1
Commerce	1,129	291	13.1	1,177	454	14.0	9,111	1,669	13.0
Services	652	181	8.2	971	152	4.7	4,549	660	5.2
Transportation	35	36	1.6	36	2	0.1	270	80	0.6
Communications	34	26	1.2	33	40	1.2	86	104	0.8
Banking and Insurance	82	155	7.0	14	61	1.9	207	392	3.1
Other	222	71	3.2	116	31	1.0	1,593	639	5.0
Total	3,946	2,214	100.0	4,268	3,243	100.0	31,508	12,794	100.0

Note: Totals may not add up due to rounding.

Source: Ministry of Finance

Table 3: Trends in Foreign Direct Investment in Japan, FY 1951-88

(number of cases and millions of dollars)

Fiscal Year	Stock Acquisition		Cash Loans		Total	
	Cases	Amount	Cases	Amount	Cases	Amount
1951-1980	8,826	$2,979	n.a.	n.a.	8,826	$2,979
1981	919	432	n.a.	n.a.	919	432
1982	1,052	749	n.a.	n.a.	1,052	749
1983	2,363	813	n.a.	n.a.	2,363	813
1984	3,685	493	n.a.	n.a.	3,685	493
1985	3,322	780	48	$150	3,370	930
1986	3,045	760	34	180	3,079	940
1987	3,912	1,453	34	761	3,946	2,214
1988	4,236	2,576	32	667	4,268	3,243
Total	31,360	11,035	148	1,758	31,508	12,794

Source: Ministry of Finance

Unlike FY 1986 and FY 1987, the yen/dollar exchange rate was relatively stable in FY 1988, with the Japanese currency rising just 7.9 percent on average against the dollar. This stability may have encouraged more foreign direct investment. If the dollar holds onto some of its recent gains against the yen, foreign firms may raise their stakes in Japan at an even faster rate. The cool reception American investor T. Boone Pickens Jr. received from Koito Manufacturing Co., Ltd. after buying one-fifth of its equity may cloud the investment atmosphere eventually (see JEI Report No. 22B, June 9, 1989), but it is unlikely to slow the flow of foreign money into Japan.

Jon Choy

Congress Explores Super 301 Priority Practices

Congress appears anxious to keep a close watch on progress in the negotiations with Japan, Brazil and India under the Super 301 provision of the 1988 Omnibus Trade and Competitiveness Act. The science, research and technology subcommittee of the House Science, Space and Technology Committee conducted a hearing June 20 about the U.S. supercomputer industry and Japanese competition. And June 22 the international trade subcommittee of the Senate Finance Committee reviewed the issue of Japanese barriers to U.S. forest products.

Capitol Hill has been very concerned over the future of the U.S. supercomputer industry since Control Data Corp. pulled out of the field, leaving only Cray Research Inc. to compete with three Japanese challengers in this leading-edge technology. American firms contend that Tokyo's government procurement policies are a trade barrier since sales of U.S.-made supercomputers to the Japanese public sector are practically nil, despite modest success in sales to Japanese businesses and a 60 to 70 percent share of the world market (see JEI Report No. 17A, April 28, 1989). Pointing out what may be a weak link in U.S. supercomputing know-how at the June 20 hearing, David Kuck, director of

the Center for Supercomputing Research and Development at the University of Illinois, stressed the need for more funding to develop quality software products usable with the wide range of supercomputer hardware available.

Paralleling the concerns of the House subcommittee, Sen. Albert Gore (D, Tenn.) introduced May 18 the National High-Performance Computer Technology Act (S 1067), a bill that would provide nearly $1.8 billion over a five-year period to create a supercomputer fiber-optic network that would connect databases from industry, universities and the government. Many experts believe government grants are necessary to keep America's supercomputer industry competitive in the face of strong Japanese rivals.

In the June 22 hearing on wood products Donald Phillips, assistant U.S. trade representative for industry, told the subcommittee that an important reason for naming forest products as a trade-liberalization priority was the failure of previous negotiations in that sector under the MOSS (market-oriented, sector-selective) framework. Mr. Phillips indicated, however, that a major lesson learned by the United States from the MOSS talks was that to make progress Washington first must sit down to negotiate with Tokyo.

In protesting Washington's unilateral action under Super 301, the Japanese government has said it will not enter into negotiations under the threat of retaliation (see JEI Reports No. 22B, June 9, and No. 24B, June 23, 1989). But Alan Dunn, the Commerce Department's deputy assistant secretary for basic industries, told the subcommittee that the framework is irrelevant as long as Japan enters into negotiations with the United States. The goal of opening the Japanese market to U.S. forest products is more important than the method used, according to Mr. Dunn.

Republican Sen. Bob Packwood, whose home state, Oregon, is in the heart of the wood-producing Northwest, told the subcommittee that the United States is seeking fair access to Japan's markets and not special privileges. Since America has a comparative advantage in wood products, fair access would benefit both U.S. producers and Japanese consumers, he said. One complaint against Japan has been its relative discrimination against value-added wood products in comparison with logs.

As previous negotiations have shown, talks with Japan either inside or outside the Super 301 framework are certain to be strenuous. By showing constant interest and reminding Japan of deadlines under the 1988 trade law, Congress and the representatives of the targeted industries -- supercomputers, wood products and satellites -- are hoping that these discussions will be more fruitful than the MOSS talks.

Gretchen Green

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The views expressed in this report are those of the authors and do not necessarily represent those of the Japan Economic Institute.